

FISCAL NOTE

Bill #: HB0288 **Title:** Rental car tax

Primary Sponsor: Erickson, R **Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
-------------------	------	---------------------------------	------

Fiscal Summary	FY 2004 <u>Difference</u>	FY 2005 <u>Difference</u>
Expenditures:		
General Fund	\$432,187	\$79,954
State Special Revenue	\$2,009,757	\$2,071,822
 Revenue:		
General Fund	\$ 1,515,543	\$ 1,562,525
State Special Revenue	\$2,009,757	\$2,071,822
 Net Impact on General Fund Balance:	 \$1,083,356	 \$1,482,571

- | | |
|--|---|
| <input checked="" type="checkbox"/> Significant Local Gov. Impact

<input type="checkbox"/> Included in the Executive Budget

<input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Technical Concerns

<input type="checkbox"/> Significant Long-Term Impacts

<input type="checkbox"/> Needs to be included in HB 2 |
|--|---|

Fiscal Analysis

ASSUMPTIONS:

1. Beginning in fiscal 2004, this bill would impose a 9% tax on gross revenue from short term rental of passenger vehicles, exclusive of charges for fuel and insurance. Rental vehicle owners would retain 5% of collections as an administrative allowance.
2. Taxable rental charges are projected to be \$41.222 million in fiscal 2004 and \$42.500 million in fiscal 2005 (Dept. of Revenue estimate based on 1997 Economic Census). Rental tax collections are projected to be \$3.525 million in fiscal 2004 (95% x 9% x \$41.222 million) and \$3.634 million in fiscal 2005 (95% x 9% x \$42.500 million).
3. 22% of collections would be combined with revenue from the accommodations tax and allocated using the formula in current law for allocating accommodations tax. 35% of collections would be statutorily appropriated to the university system to use for matching funds for a National Science Foundation grant program, and 43% of collections would go to the general fund. The following table shows the allocation of rental car tax for fiscal years 2004 and 2005.

Fiscal Note Request HB0288, As Introduced
(continued)

Rental Vehicle Tax Revenue and Allocation		
	FY 2004	FY 2005
Historical Markers & Sites	\$ 7,759	\$ 7,997
Tourism Research	19,397	19,991
Parks Maintenance	50,432	51,977
Statewide Tourism Promotion	523,716	539,766
Regional & Local Tourism Promotion	174,572	179,922
University System NSF Match	1,233,581	1,271,822
General Fund	1,515,543	1,562,525
Total Revenue	<u>\$ 3,525,000</u>	<u>\$ 3,634,000</u>

4. The Department of Revenue would need to develop a new computer system to administer the rental car tax, would require an additional 0.25 FTE for compliance work, and would incur other setup costs for processing new tax returns. The cost of developing the new computer system would be \$412,421 in fiscal 2004, and ongoing maintenance costs would be \$66,982 in fiscal 2005. The cost of the additional 0.25 FTE and associated equipment would be \$18,813 in fiscal 2004 and \$12,972 in fiscal 2005. The setup costs for processing a new return would be \$953 in fiscal 2004. The total additional cost to the department would be \$432,187 in fiscal 2004 (\$412,421 + \$18,813 + \$953) and \$79,954 in fiscal 2005 (\$66,982 + \$12,972).

FISCAL IMPACT:

Department of Revenue
FTE

FY 2004
Difference
0.25

FY 2005
Difference
0.25

Expenditures:

Personal Services	\$280,753	\$9,993
Operating Expenses	\$134,510	\$69,961
Equipment	<u>\$16,924</u>	<u>\$0</u>
TOTAL	\$432,187	\$79,954

Funding of Expenditures:

General Fund (01)	\$432,187	\$79,954
-------------------	-----------	----------

Other Departments

Expenditures:

Montana Historical Society – Historical Markers	\$7,759	\$7,997
Dept of Fish, Wildlife and Parks – Parks Maint.	\$50,432	\$51,977
Department of Commerce – State Tourism	\$523,716	\$539,766
Department of Commerce – Regional Tourism	\$174,572	\$179,922
Montana University System – Travel Research	\$19,397	\$19,991
Montana University System – Matching Funds	<u>\$1,233,581</u>	<u>\$1,271,822</u>
TOTAL	\$2,009,757	\$2,071,475

Fiscal Note Request HB0288, As Introduced
(continued)

Funding of Expenditures:

State Special Revenue (02)	\$2,009,757	\$2,071,475
----------------------------	-------------	-------------

Revenues:

General Fund (01)	\$ 1,515,543	\$ 1,562,525
State Special Revenue (02)		
Historical Markers and Sites	\$7,759	\$ 7,997
Tourism Research	\$ 19,397	\$ 19,991
Parks Maintenance	\$ 50,432	\$ 51,977
Statewide Tourism Promotion	\$ 523,716	\$ 539,766
Regional & Local Tourism Promotion	\$ 174,572	\$ 179,922
University System NSF Match	\$ 1,233,581	\$ 1,271,822

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$1,083,356	\$1,482,571
State Special Revenue (02)		
Historical Markers and Sites	\$0	\$0
Tourism Research	\$0	\$0
Parks Maintenance	\$0	\$0
Statewide Tourism Promotion	\$0	\$0
Regional & Local Tourism Promotion	\$0	\$0
University System NSF Match	\$0	\$0

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

This bill would provide \$174,572 in additional funding for regional and local tourism promotion in fiscal 2004 and \$179,922 in fiscal 2005.

TECHNICAL NOTES:

1. Section 1(2)(a) defines "rental vehicle" as a subset of "passenger vehicle." The term "passenger vehicle" is not defined. This fiscal note assumes that "passenger vehicle" has the same meaning as "light vehicle" as defined in MCA 61-1-139.
2. Section 2(2) requires a rental vehicle owner to file a tax return with payment of 95% of collections by the last day of the month following the end of each quarter with the remaining 5% of collections retained by the rental vehicle owner as an administrative allowance. It is not clear whether rental vehicle owners who do not file timely returns still are allowed to retain the administrative allowance. No existing state tax in Montana has an administrative allowance. In other states, it is common practice for the administrative allowance to be retained only when the taxpayer files a timely return.
3. Section 3 allows rental vehicle owners who have more than one location to obtain one permit, and presumably to file one return. Section 7 distributes part of the proceeds of the tax to regional and local tourism promotion corporations based on the location where tax is collected. For this distribution, tax collected from a rental vehicle owner with one permit for multiple locations would be attributed to the location of the permit rather than the location where the tax was collected.
4. Section 3(4) imposes a fine of between \$50 and \$100 for failure to obtain a permit but gives no criteria for setting the fine within this range.
5. Section 3 requires rental vehicle owners to obtain a permit from the Department of Revenue. The term "permit" implies regulatory authority, but neither this bill nor existing law gives the Department of

Fiscal Note Request HB0288, As Introduced
(continued)

Revenue authority to regulate the business of renting vehicles. It would be clearer to require rental vehicle owners to register with the department.

6. In Section 3, the only sanction for a rental vehicle owner who does not register to collect the tax is a fine. Registration is not made a requirement for conducting business.
7. Section 1 defines “gross receipts.” Section 2 states: “The tax is 9% of the gross receipts, as stated in the rental contract. The tax must be stated in the rental contract and collected in accordance with the terms of the contract.” This wording appears to allow some leeway for a rental contract to redefine gross receipts and set up an alternative tax collection mechanism. If the intent is to require that taxable gross receipts and the amount of tax be stated in the contract, the following wording would be clearer: “The tax is 9% of the gross receipts. Taxable gross receipts and the tax must be stated in the rental contract.”
8. Department of Revenue computer system costs were estimated without the use of ITSD / CIO recommended project methodology.
9. The information technology project required to implement this legislation would require the review and approval of the Chief information Officer as provided for in 2-17-512, MCA.